



# Energy Sector Overview of Problems

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Donor - Sector Meeting  
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# Introduction

- WEG Papers and the Letter to Donors, Government, Parliament
- Ministry Openness to dialogue with Specialists and Civil Society

## **Disclaimer:**

Only our views. Too many issues. Some formulations may look provocative but let us discuss the essence

Summary:

**Visible Achievements, but Systems Missing  
Situation Alarming – Urges Strong Action**



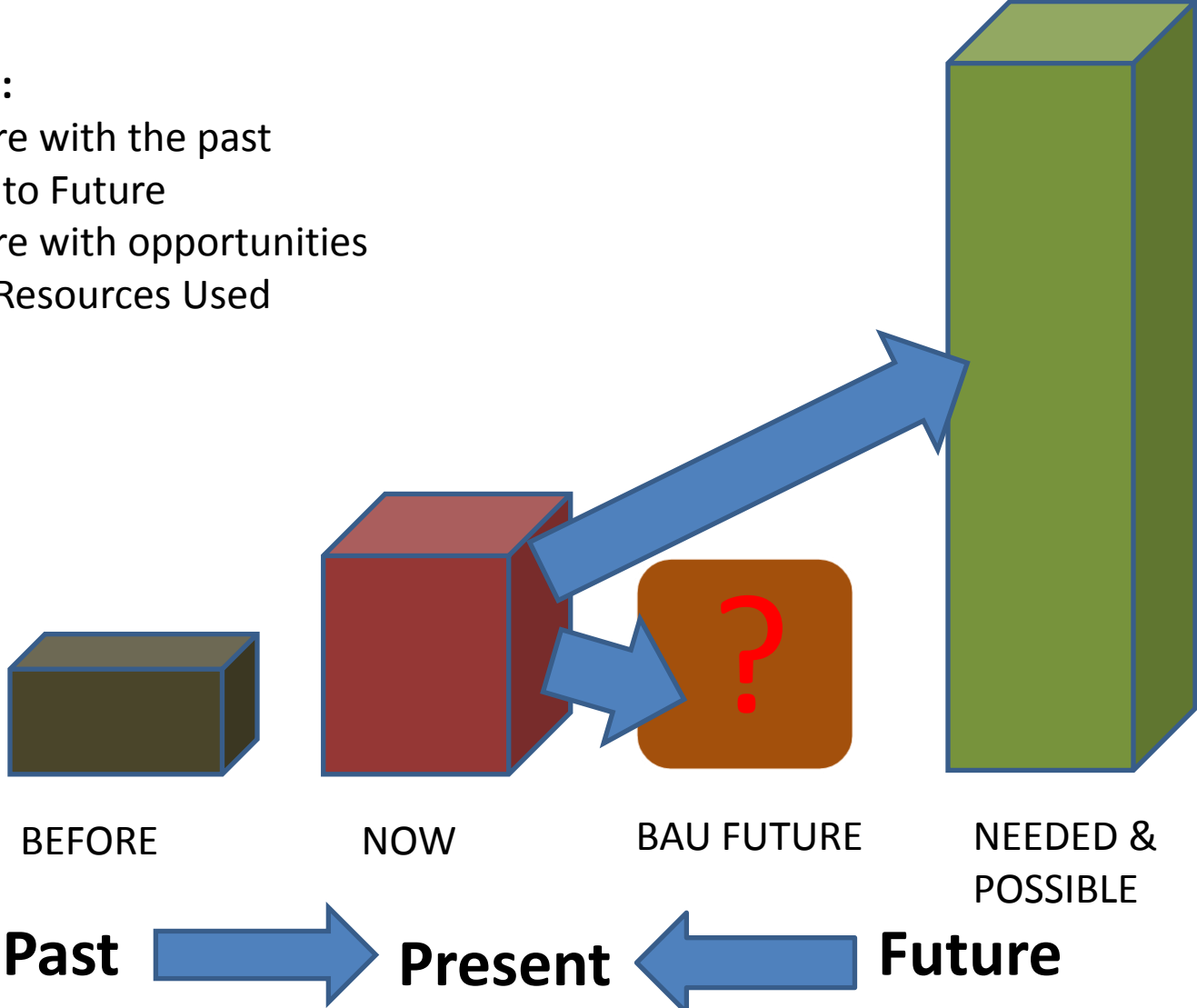
# Background

- Image of the most successful sector
- New leadership in MENR took full responsibility for Sector. Positive expectations and pressure created
  - Continuous energy supply
  - Tariff Reductions
  - Investment and HPP development
  - Infrastructure development
  - Renewable Energy and EE Laws (maybe)
- Sector inventory and assessment needs to be done and implications for future studied before taking full responsibility

# Assessment Guides the Action

**Criteria:**

- Compare with the past
- Project to Future
- Compare with opportunities
- Assess Resources Used





# History of Donor Led Reform 1994-2003

- Sector Recovery/rehabilitation (generation, T&D)
- Unbundling of SAKENERGO
- Setting up the Ministry, **Independent** GNERC, Wholesale Market. Separation of authorities
- GIOC- BS, BTC, SCP pipelines and transit agreements
- Privatization and investment in distribution AES
- Western Management in GSE, WEM, UEDC
- Transparent and clear legislation
- Cost based tariffs set by GNERC
- Reduced government interference
- Capacity Building of People and Institutions



# History of Reform - 2<sup>nd</sup> Decade

- Investment in sector and Improved electricity & gas supply but:
  - Strong Centralization & control - Ministry combining political, regulation, ownership, management functions
  - Weakening of GNERC and Oil & Gas agency – shift to political rather than economic regulation
  - Bundled privatization
  - Abolishing of WEM creation of ESCO and bilateral market
  - Reduced transparency (Agreements, FS of Distcos)
  - Memorandums & tariffs (extended to 2025,2030)
  - Gas Turbine construction (no HPPs)
  - Amendments to E & G Law, New Market Rules, Numerous ad hoc & questionable changes
- Away from Western Model – Back to Command System**
- Professional and institutional development slowed down



# Systemic Problems

- **No Energy Strategy of the Country**  
Should include, SWOT, economics, politics & security, technologies, market model views, infrastructure etc.
- **Ministry of Electricity and a Bit of Gas -No comprehensive Energy, Law EE & RE Laws**
- **No information for decision making ENERGY BALANCE**
  - 60-65% energy dependent
  - Out of own energy – 40% is wood fuel- the rest hydro
  - No information on own coal, oil, gas, renewables
- **No Energy Planning – even electricity demand projection (MARKAL results not used)**
- **No processes and related professionals**



# Systemic Problems

- Electricity Market structure and ownership monopolistic – no space for competition
- GNERC ineffective - tariffs, market regulation
- Redistribution of Policy, ownership, regulatory powers involvement of politics results in instability
- Investment environment - Hydropower development slow or stalled – deficiency in systems compensated with concessions, investors asking for more concessions
- Absence of Research and Development





# Accumulated Problems

- Quality of Legislation, E & G law, O & G Law, market rules, absence of grid code etc. – aggravates investment climate
- Major vertically integrated segments controlled by State Companies of other countries in absence of market competition, strong legal and regulatory framework and transparent strong policies.

Extremely dangerous for independent pro-western development.

- MoUs – Long term concessions
  - MoU with RAO UES –extended till 2025 (?)
  - Agreement with Energo-Pro - extended till 2025(?)
  - MoU with SOCAR - gas deal extended till 2030 (?)
  - Unsettled situation with Kaztransgas & Kakheti dist'co
  - Unsettled relations with HPP investors (e.g. capacity allocation)
  - Existing HPP MoU problems

Signed and extended without clear long term policy and analysis of alternatives – needs to be reviewed.

Huge sums of money already collected through tariff without adequate leverage for compliance or return.



# Foregone Opportunities

- **Fossil Fuel Exploration & Production**
  - 80% of potential O & G reserves unexplored
  - Undeveloped coal
  - Shale gas opportunity
  - No refinery
- **Gas Storage** – not constructed. Balancing done by SOCAR for how much?
- No HPP completed so far - inefficient GT vs.CC
- Individual metering not completed (40% of regional consumers)
- Low Energy Efficiency (buildings, industry, wood)
- Wind, Solar Geothermal – not developed
- Undeveloped Qualification in these and other fields



# Challenges Ahead

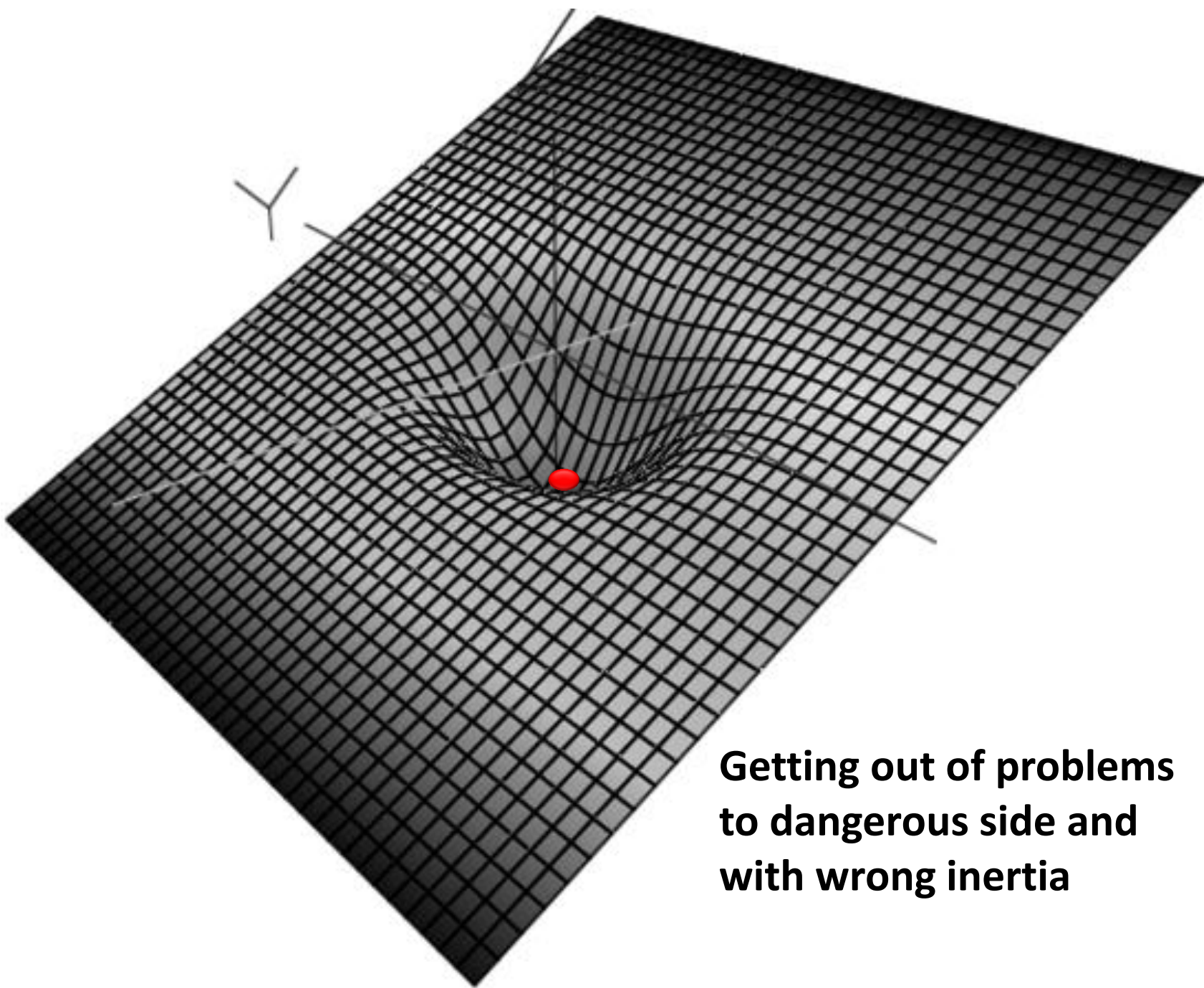
- Improvement of Energy Security -winter power supplies
- Black Sea Transmission line – technical and regulatory issues
- Turkey Market & Regional Market challenges
- Association agreement with EU – DCFTA, Energy Community negotiations
- Hydropower development by Strategic Investors
- EE & RE strategy & legislation
- Own fossil and renewable sources Coal, Oil & Gas, wind, solar, etc.
- Southern corridor and country's benefits
- Sound practices in Tariff setting
- Grid infrastructure planning & development
- Defending Country's Political and Economic Interests

Strong Professional Pro-Western Energy Sector Needed



# Case of Tariffs

- Unjustified tariff reduction a wrong goal
- Negotiated by MENR with Investors rubberstamped by GNERC as before
- Subsidy – extended further
- Ministry in a false position of responsibility
- Political interference in economic sector one more step back
- Gas tariff further subsidization promotes gas versus coal & wood
- Implications on investment, energy security, economic development
- **Need to turn around**



**Getting out of problems  
to dangerous side and  
with wrong inertia**



# Sector Reform Program

- Sound Energy strategy based on objective information and proper planning methods
- Legislation Harmonization with EU Acquis – *a big strategic problem – how to handle with current reality*
- Energy Law and EE & RE legislation
- GNERC Independence & professional development
- Market Model & Market Rules, regional market
- Institutional and professional capacity building etc.

## All are Important Projects

- Strategy of the Reform Program needs to be developed
  - Wisely - with the full account of existing sensitivities and local specifics.
  - With Transparency, Good Governance and quality Documents
  - CONCEPTS NEED TO BE DEVELOPED AND DISCUSSED FIRST in order to involve all stakeholders



# Ministry Development

Along with ongoing high importance work -

- Modern Systems and Professionals to be developed
  - Mission & Vision
  - Objectives
  - KPIs
  - Structure
  - Job Descriptions
  - Staffing
  - Professional Training
- **Strong HiFi Expert Support**





# Conclusions

- Situation in Energy Sector
  - Not in compliance with EU association goals,
  - Contains serious threats to country's future independent development
- First stage shows both positive and negative signs
- Government's and Publics awareness and attitude needs to be changed. Ministry needs to be relieved from political pressure.
- **NEW WAVE OF REFORM NEEDED**
  - Strong & Coordinated Donor involvement essential
  - Highest qualification of advisors
  - Strong participation of sector specialists crucial
  - Support and involvement of Parliament, Media and Civil Society should be secured





**THANK YOU**

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